

Fairfax County Economic Index

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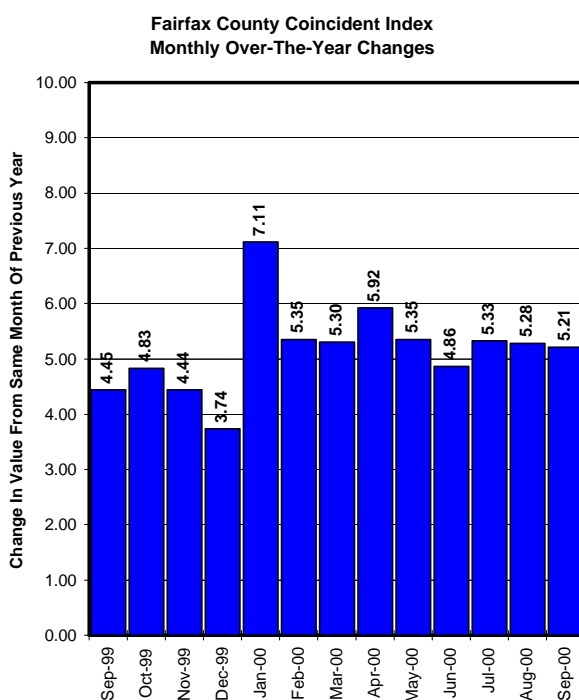
NOVEMBER 2000

County Economy Rebounds in September, However Slower Future Growth Is Expected

The **Fairfax County Coincident Index**, which represents the current state of the County's economy, increased to 126.26 in September, gaining 0.43 percent. This is the third monthly increase in a row for the Index. Year-to-date, the Index has been up in six months and down in three for a nine-month gain of 3.7 percent. Since September 1999, the Index is up 4.3 percent and continues to track slightly above its historical growth trend. In September, two of the Index's four components were positive.

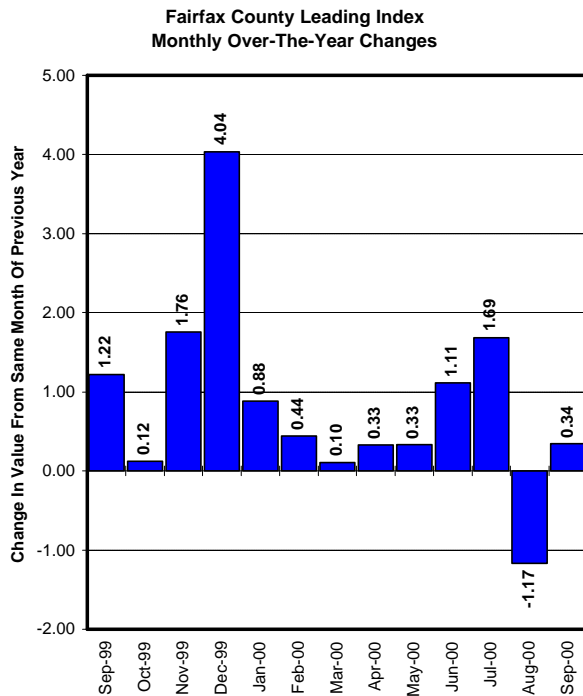
- Total employment grew in September for a third month and for the seventh time this year; and
- Transient occupancy tax collections, adjusted for inflation and seasonal variation, increased after declining for four months; while,
- Sales tax collections, adjusted for inflation and seasonal variation, declined for the second time in three months; and,
- Consumer confidence slipped for a second consecutive month.

The **Fairfax County Leading Index**, which is designed to forecast the performance of the County's economy nine to twelve months in advance, increased in September to 106.16, for a gain of 0.39 percent. This increase partially offset a large decline in August. Year-to-date, the Index has been negative in five of nine months and has



Source: Center for Regional Analysis, George Mason University

lost 2.5 percent. This decline has brought its current value below the historical growth trend line and is consistent with the slowing of the economy's growth rate. Compared to September 1999, however, the Index remains positive, reflecting its strong performance last December. In September, the performance of two of the Index's five components contributed to its gain.



Source: Center for Regional Analysis, George Mason University

- Residential building permits increased slightly in September following their sharp decline in August and have now been up in three of the last four months; and,
- Initial claims for unemployment insurance registered their largest decrease (improvement) in more than a year following small seasonal gains in July and August; while,
- Consumer expectations (consumer confidence six months hence) dropped after increasing in both of the two preceding months;
- New automobile registrations declined for the third time in four months; and,
- The total value of residential building permits was off slightly, dropping for a second month in a row.

The underlying strength of the Fairfax County economy remains evident in its strong employment growth. However, consumer spending has weakened in recent months. With both national and Washington area economies showing clear signs of slowing as the year has progressed and with the forecasting indicators generally pointing to slower

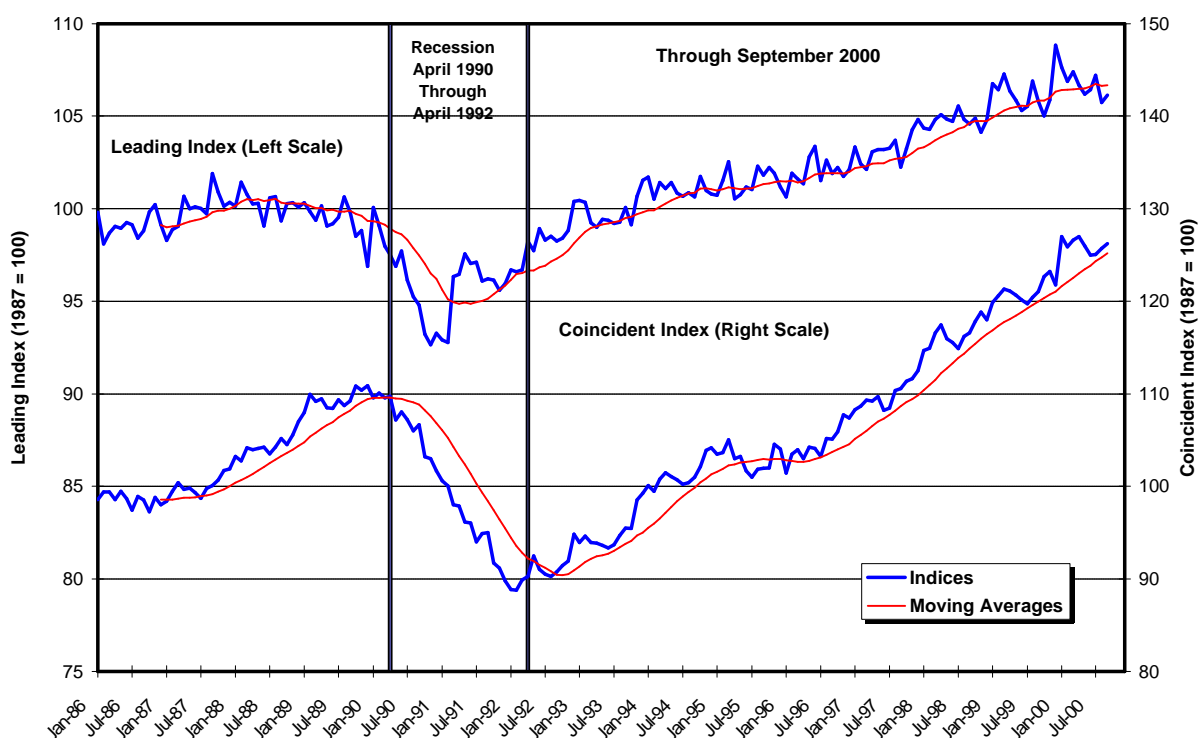
future growth at all levels of the economy (national, regional and County), it appears likely that job growth will slow and unemployment will increase slightly in the County next year. Still, the County economy will continue to account for a disproportionately high share of the job and income gains in the Washington metropolitan area.

CURRENT CONDITIONS

Job growth in Fairfax County accelerated in September, with its monthly over-the-year gain of 26,589 (5.23 percent) in September representing the largest job gain this year since January. This gain accounted for 34 percent of the job increase in the Washington metropolitan area over the September 1999-September 2000 period. With unemployment steady at 1.4 percent and initial unemployment claims dropping 26.9 percent, it is clear that the County's labor market remains extremely tight and will likely limit the degree to which the County's economy can continue to expand.

While the County's economy is still recording strong job gains, consumer spending has not remained as strong. The indicators that measure the strength of consumer spending all are pointing down. Most important in the longer term is consumer confidence. Consumer expectations, consumer confidence six months hence, dropped in September and also declined in October. Consumer confidence (in the present) declined in both August and September (and more recently again in October). This downward trend in consumer confidence is reflected in weaker retail sales and other spending categories. As measured by sales tax revenues, retail spending in the County was down 1.1 percent in September and is off 2.2 percent from September 1999. This compares with a gain of 5.5 percent in sales for the Washington region and 7.7 percent gain nationally. Automobile sales (registrations) fell 26.9 percent in September reflecting the end-of-the-model-year, but are also lower than the 12-month period ending in September by 26.6 percent. Residential sales, as measured by building permits, are down 48.3 percent on a same-month basis in September with their value down 17.1 percent for the same period.

Business Cycle Indicators -- Fairfax County, Virginia



Source: Center for Regional Analysis, George Mason University

It is clear that consumer spending, which is a key driver of the economy's expansion, is softening, even though job growth and the related income gains have not slowed down. This slowdown in spending is expected to carry over through the fourth quarter and into next year, as the economy in general slows slightly in response to higher interest rates, higher energy costs, and growing uncertainty in the financial markets. With slower consumer spending and slower growth in national markets and the tight local labor market, slower job growth seems inevitable.

NEAR-TERM OUTLOOK

The National Leading Index, which forecasts the performance of the U. S. economy out about six months, last increased in March. Since then, it has either been unchanged or has declined on a month-to-month basis losing a total of 0.4 percent. This is definitely pointing to slower growth in the fourth quarter extending into 2001. Accordingly, forecasts for the national economy show a slowing from 4.5 percent this year to 3.5 percent in 2001. The Washington area

economy is also slowing, although not as fast as the national economy.

In this context, the Fairfax County economy has shown clear signs of slower future growth. With the County's Leading Index trending down, and presently growing more slowly than the recent trend line, it is pointing to further slowing in the Coincident Index in 2001. Still, the forecast for the County economy is for a very slight slowing overall next year with the possibility that this trend will continue for several years.

This projected slowing in the County's economy should be viewed positively as it will reduce the inflationary pressures threatening the economy's vitality and help to ease the labor shortage. This slowdown will not undermine the economy's long-term health and may help to strengthen the County economy by facilitating the shift of workers into more productive business activities. The key indicators to watch in the coming months remain job growth and consumer spending. Both of these are expected to moderate in comparison to their peak performances during the fourth quarter last year, setting the stage for continuing moderation during the coming year.

Fairfax County, Virginia Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-00 Prelim.	Aug-00 Final	Sep-99 Final	Aug-00 to Sep-00	Sep-99 to Sep-00
Fairfax County Business Cycle Indicators					
Coincident Index (1987 = 100)	126.26	125.72	121.05	0.43	4.31
Leading Index (1987 = 100)	106.16	105.74	105.81	0.39	0.32
Fairfax County Coincident Index Components					
Total Covered Employment (Seasonally Adjusted)	534,581	532,307	507,992	0.43	5.23
<i>Total Covered Employment (Unadjusted)</i>	<i>535,565</i>	<i>532,354</i>	<i>508,926</i>	<i>0.60</i>	<i>5.23</i>
Transient Occupancy Tax (\$'000='87, Smoothed, Seasonally Adjusted)	321	311	282	3.26	13.54
<i>Transient Occupancy Tax (\$'000=Current, Smoothed Only)</i>	<i>568</i>	<i>567</i>	<i>484</i>	<i>0.07</i>	<i>17.35</i>
Sales Tax Receipts (\$'000='87, Seasonally Adjusted)	8,428	8,522	8,621	-1.10	-2.23
<i>Sales Tax Receipts (\$'000=Current, Unadjusted)</i>	<i>11,037</i>	<i>10,865</i>	<i>10,948</i>	<i>1.58</i>	<i>0.81</i>
South Atlantic Consumer Confidence	189	189	185	-0.16	2.00
Fairfax County Leading Index Components					
New Automobile Registrations (Seasonally Adjusted)	6,038	7,251	6,966	-16.73	-13.33
<i>Automobile Registrations (Unadjusted)</i>	<i>6,866</i>	<i>8,197</i>	<i>7,922</i>	<i>-16.24</i>	<i>-13.33</i>
Initial Unemployment Claims (Seasonally Adjusted)	505	692	688	-26.94	-26.56
<i>Initial Unemployment Claims (Unadjusted)</i>	<i>423</i>	<i>638</i>	<i>576</i>	<i>-33.70</i>	<i>-26.56</i>
South Atlantic Consumer Expectations	120.1	124.9	114.5	-3.84	4.89
Residential Building Permits (Number of Units, Seasonally Adjusted)	309	275	597	12.29	-48.28
<i>Residential Building Permits (Number of Units, Unadjusted)</i>	<i>331</i>	<i>309</i>	<i>640</i>	<i>7.12</i>	<i>-48.28</i>
Residential Building Permit Value (\$'000='87, Seasonally Adjusted)	25,044	25,667	30,216	-2.43	-17.12
<i>Residential Building Permit Value (\$=Current, Unadjusted)</i>	<i>40,044</i>	<i>45,816</i>	<i>46,744</i>	<i>-12.60</i>	<i>-14.33</i>
Fairfax County Labor Force					
Total Labor Force (Seasonally Adjusted)	555,695	557,257	546,396	-0.28	1.70
<i>Total Labor Force (Unadjusted)</i>	<i>557,907</i>	<i>556,365</i>	<i>548,571</i>	<i>0.28</i>	<i>1.70</i>
Unemployment Rate (Percent, Seasonally Adjusted)	1.39	1.50	1.61	--	--
<i>Unemployment Rate (Percent, Unadjusted)</i>	<i>1.41</i>	<i>1.28</i>	<i>1.62</i>	<i>--</i>	<i>--</i>

Notes: All components included in the indices are seasonally adjusted. In addition, those expressed in dollar value (Building Permit Value, Transient Occupancy Tax, and Sales Tax) are expressed in constant 1987 dollars. Initial Claims are inverted prior to inclusion in the Leading Index; that is, an increase in claims results in a decrease in the index and visa versa. Because of its quarterly collection schedule, the Transient Occupancy Tax is smoothed. Unadjusted data (*italics*) and Fairfax County Labor Force data are not included in either index, but are shown for informational purposes. All percent changes are calculated from unrounded data.

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We are on the web at:
**[www.co.fairfax.va.us/comm/
economic/economic.htm](http://www.co.fairfax.va.us/comm/economic/economic.htm)**

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